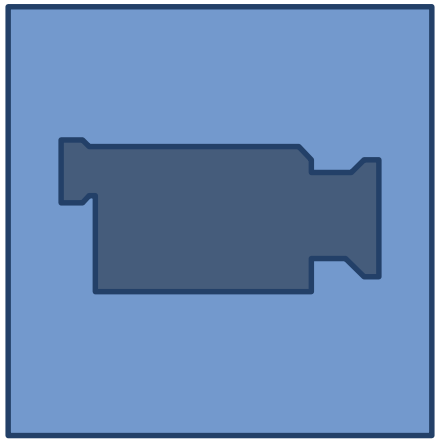
The Power of Compounding

Pehal- A Max Life CSR initiative

Video- Power of compounding



Its not magic, its mathematics

Annual Compound Interest Formula

$$A = P(1+r/n)^{nt}$$

A = Amount accumulated - future value of the investment, including interest
P = Principal investment amount (the initial deposit or loan amount)
r = Interest rate per year (decimal)
n = Number of times that interest is compounded per year
t = Number of years the money is invested or borrowed for

Impact of compounding

Ramu

$$A = P(1+r/n)^{nt}$$

Total interest earned= Rs. 1576.25

Start

Principal invested = 10,000

Yr 1

Amount in year 1
10,000 + 500 = 10,500
Principal + Interest

Yr 2

Amount in year 2
10,500+525= 11,025

Yr 3

Amount in year 3
11,025+ 551.25= 11,576.25

Interest pe interest

Try it out! Scenario 1 & 2

Calculate the compound interest earned by Manish and Nitin till they turned age 50 years

MANISH

Age at investment

25 Yrs

10,000

NITIN

35 Yrs

@ 6% compounded annually

42,919

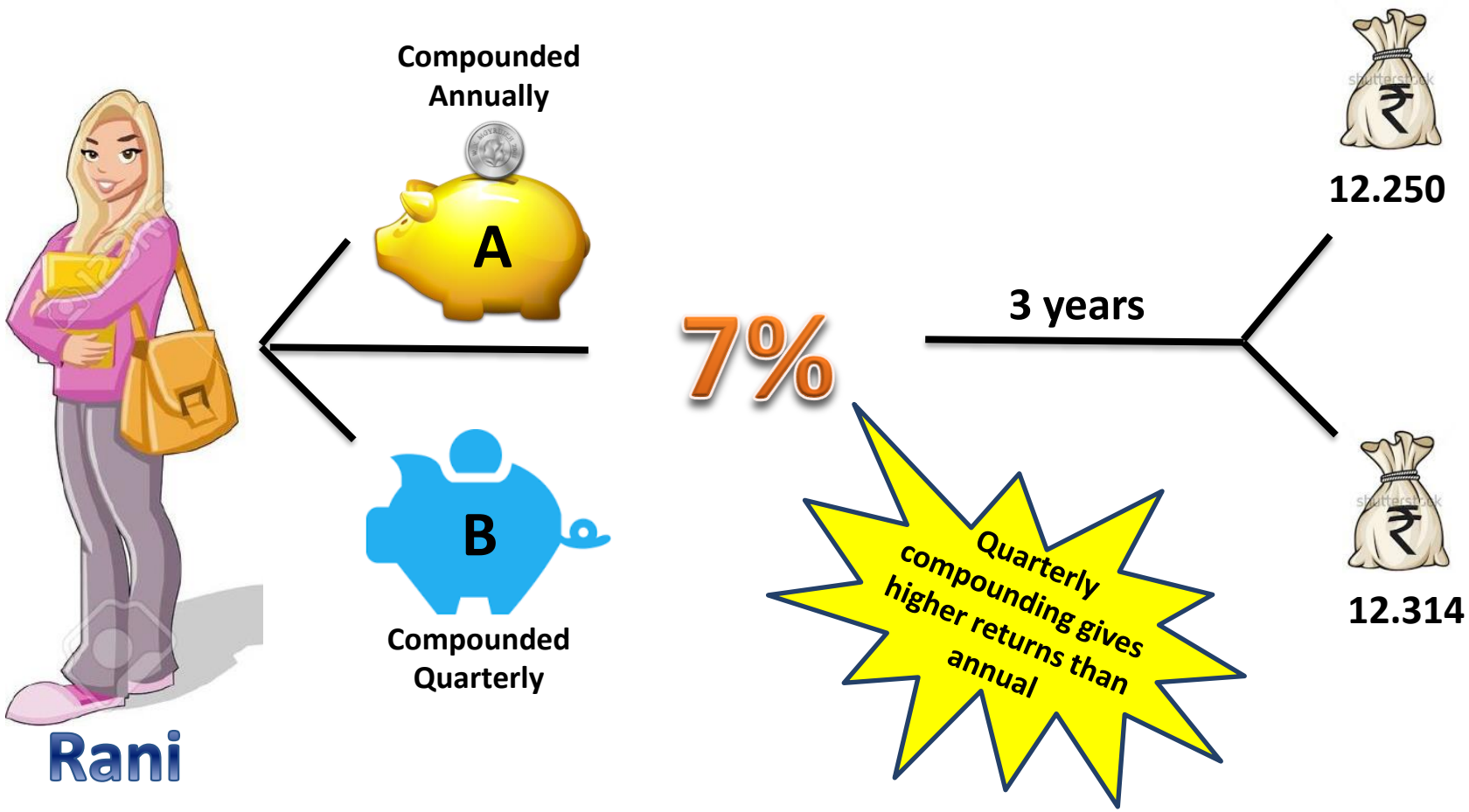
50 Yrs

23,966

Regular and longer the investment horizon, the more will be the interest on interest earned

Activity: Scenario 3

Calculate the value of savings at the end of 3rd year done by Rani in two different assets.



As the frequency of compounding increases, the difference becomes significant.

Summarize

You saw the Magic of Compounding and you only need to keep these three points in mind to make this magic happen for you.

1. **Start early -** The longer the investment period, the more the interest on interest earned and hence you have time working to your advantage.

2. **Save Regularly** - It is ideal to save steadily for your entire career to reap maximum benefits.

3. **Shorter interval of compounding, greater impact** - Compounding cycle is nothing but the frequency or interval at which the interest multiplies. Compounding can be done on daily, monthly, quarterly, half yearly or annual basis. The shorter the interval of compounding, the greater the impact.

Thank you

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